

Employee Engagement in Tough Times

The Impact of HR and Training Departments and employee's perceptions of fairness

March 09, 2010



Hay Group research has shown that an employee's perception of **fairness and equitable treatment** is a core driver of employee retention and engagement.

Research also shows a clear link between employee engagement and retention to effective leadership, equitable rewards, career opportunities, and communication of processes

Unfair treatment can send employees packing

Employee engagement and retention is negatively impacted when...

- Employees feel their skills and abilities are not utilized
- Opportunities for advancement, development, and training are not consistently or equitably available
- Managers don't adequately counsel performance or develop subordinates but later penalize employees for poor performance after the fact
- Compensation and benefits policies are not effectively communicated and applied fairly

Unfair treatment: Employees become disengaged or leave

Satisfaction with:	Total Percent Satisfied		Gap (%)
	Employees planning to stay for more than two years	Employees planning to leave in less than two years	
Use of my skills and abilities	83%	49%	34%
Ability of top management	74%	41%	33%
Company sense of direction	57%	27%	30%
Advancement opportunities	50%	22%	28%
Opportunity to learn new skills	66%	38%	28%
Coaching and counseling from supervisor	54%	26%	28%
Pay	51%	25%	26%
Training	54%	36%	18%

A life-time of fairness and equity

While fairness and equity are important workplace issues, the concept is developed at a young age and persists for a lifetime

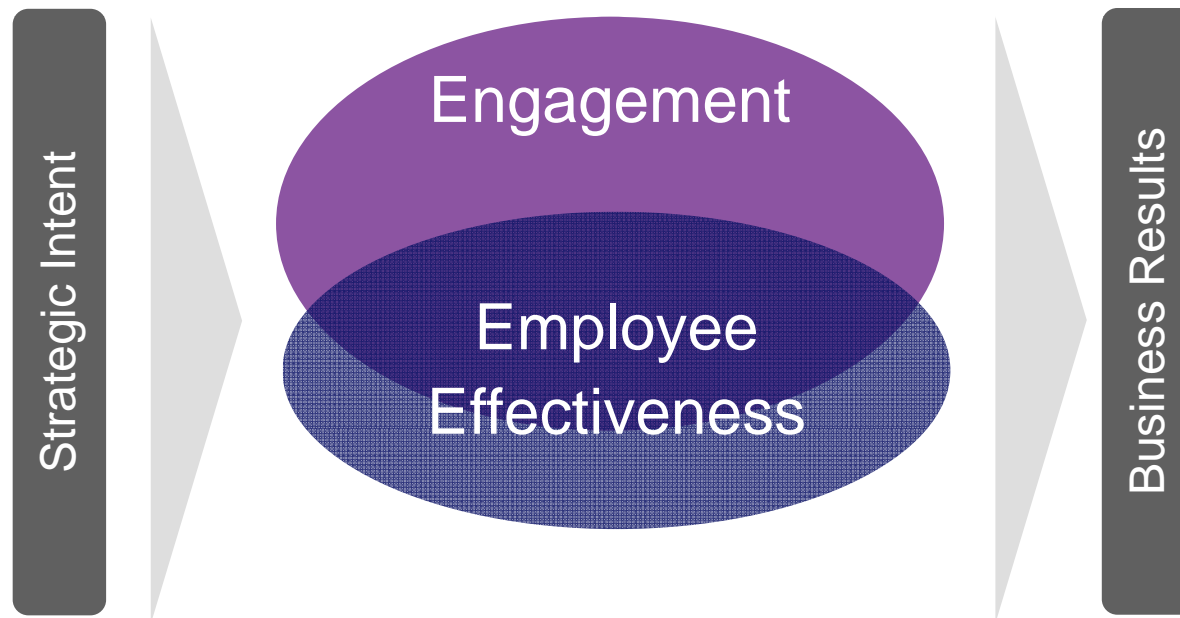
- Research shows seven year olds were able to recognize unfair practices and the potential harm of such practices to themselves and others
- In another study, children were placed in pairs and one child was afforded the authority to determine if he or she alone should receive a piece of candy or if both children should receive the candy... the majority chose candy for the pair
- Even primates have exhibited an understanding of inequity by throwing tantrums in response to unfair rewards

01

Employee engagement –
Why is it critical?

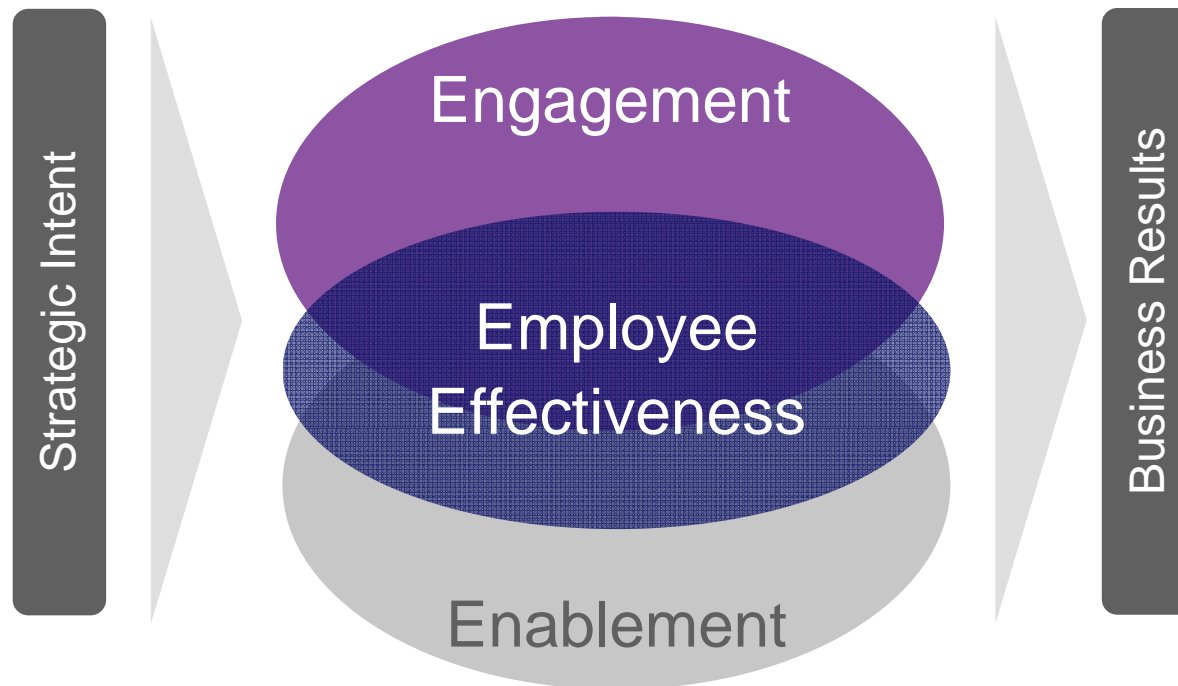
Engagement is critical in today's economy

The discretionary effort of employees is essential for organizations trying to do more with less



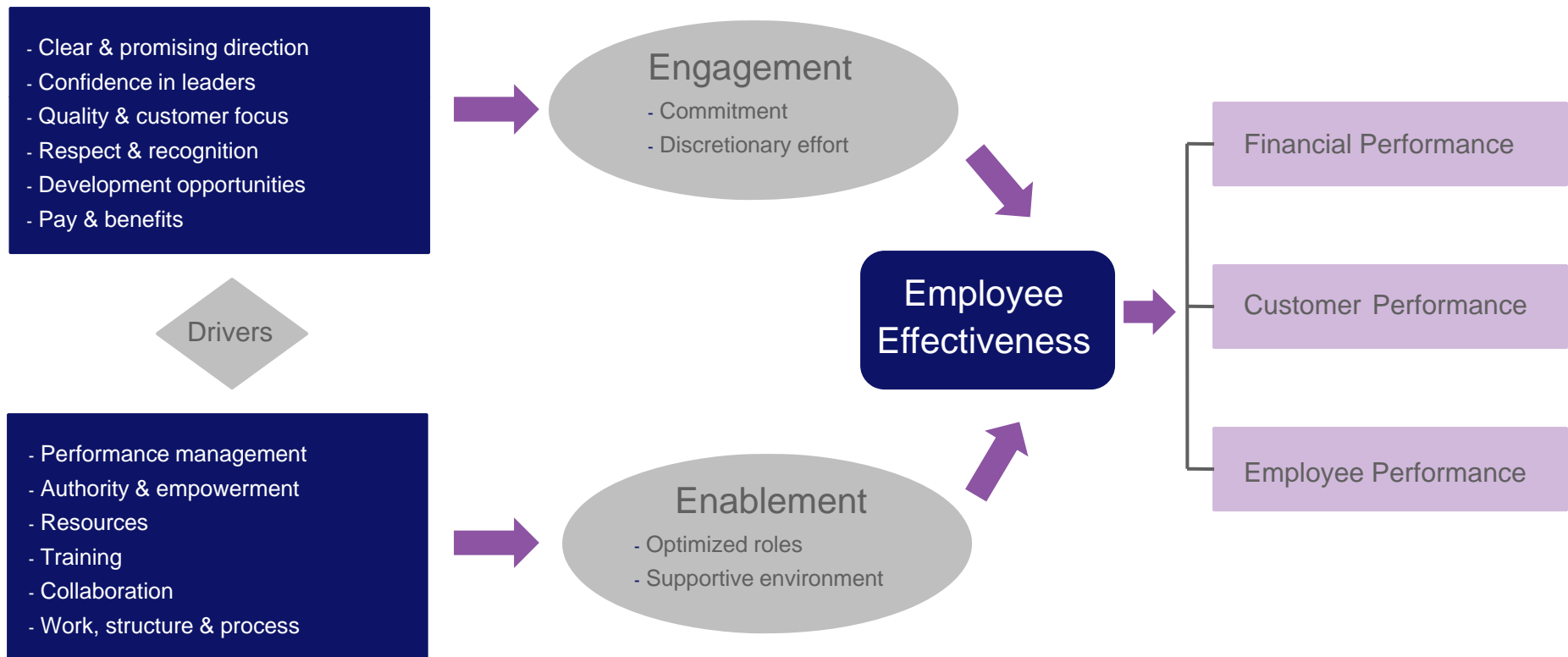
... you also need to enable employee performance

In tough times, work environments have to turn motivation into productivity



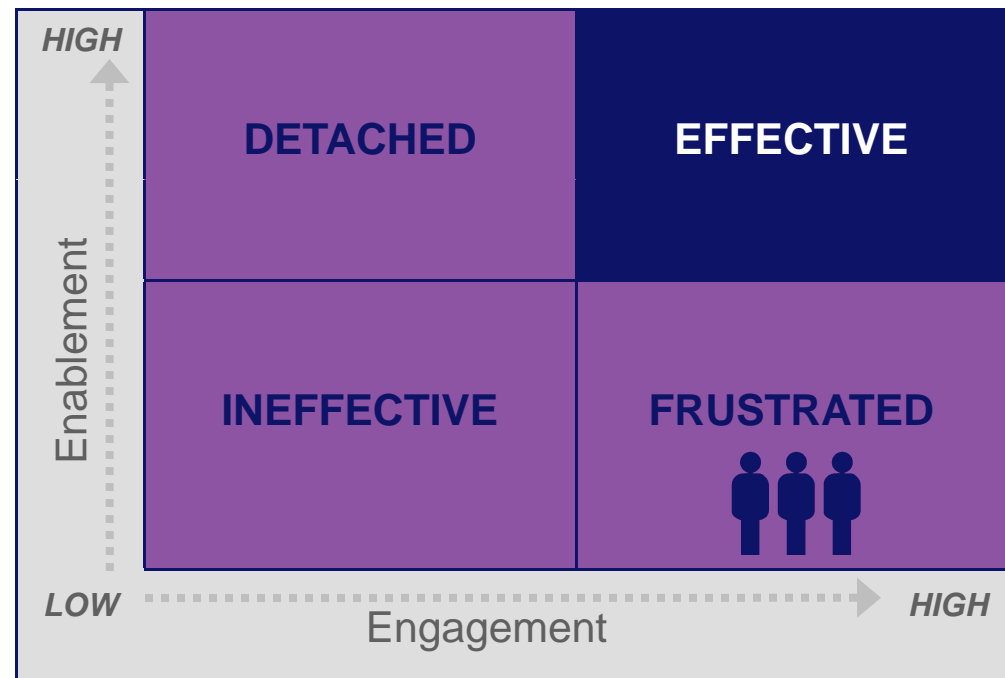
Employee effectiveness: Conceptual model

Engagement and enablement are both essential for optimum performance



Engagement and enablement go hand-in-hand

- ✓ Engagement and enablement are equally important determinants of employee performance
- ✓ Organizations are unlikely to sustain one without the other
- ✓ Effective employees are 1.5 times more likely to out-perform their ineffective colleagues



02

Leveraging points

Clarifying pay systems

Pay is a one component in an employee's view of fairness

- In today's high stress, networked, heavy workload environment, employees are more sensitive to compensation issues
 - This leads to employees placing more pressure on organizations to balance rewards and contributions
- Clarifying the pay systems both internally and externally is critical to building employees' confidence that they are receiving an appropriate return on their investment to the organization
 - Only 50% of employees believe that they are paid fairly for the work they do
 - Only 39% express confidence that pay increases are handled fairly in their organizations.
 - Organizations that have favorable ratings on linking pay and performance also receive high marks for equity and fairness

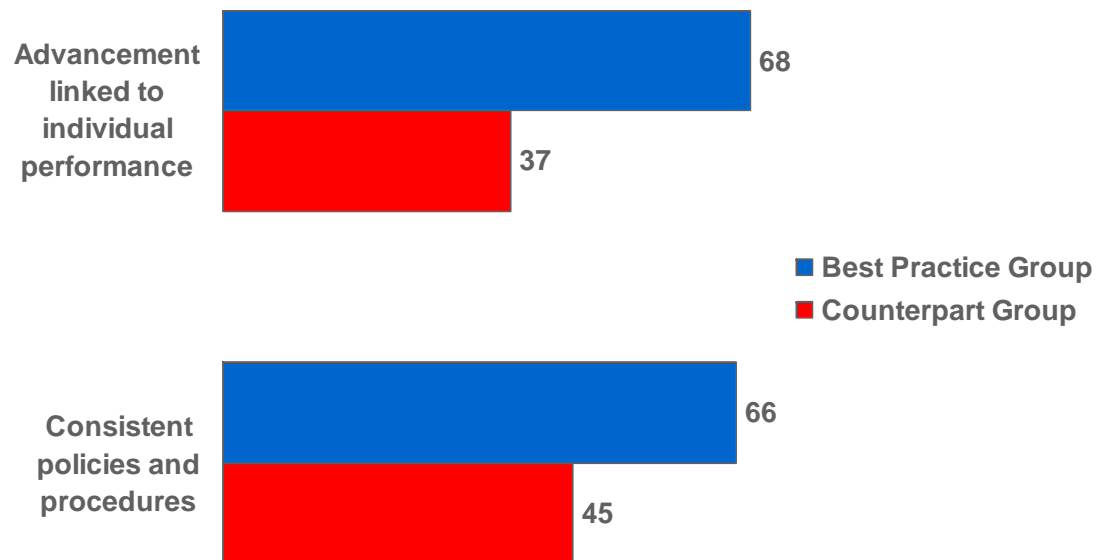
Career development

Opportunities for growth and development are among the most consistent predictors of employee commitment and retention

- Stagnant capabilities and no development can hurt employees chances of employment within their current organizations and elsewhere
 - Without clarity regarding promotion processes, there is a significant potential for perceived inequities and “sour grapes”

Career development

Career development/advancement best practice companies were identified by drawing on Hay Group's employee opinion norms of over 200 companies and more than 2.6 million employees



A good work climate

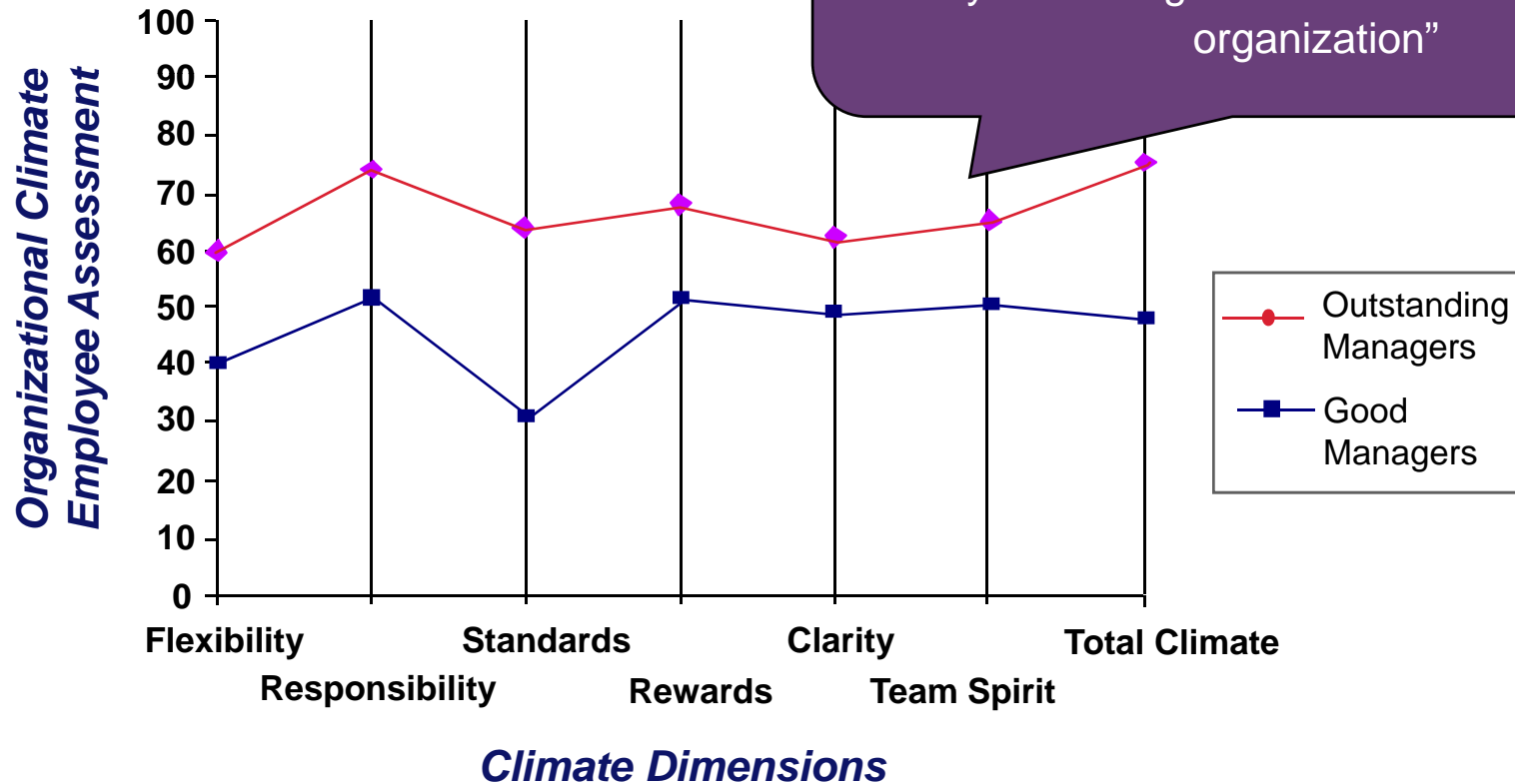
Much of the way individuals experience their organizations is filtered through their relationships with their immediate supervisors

- When the employee/supervisor relationship is strong, employees are more likely to have positive views of their organization and work experiences
- Supervisors have a substantial impact on perceived organizational fairness
 - A slight majority of employees (53%) give their supervisors high marks for dealing fairly with everyone (i.e., not playing favorites)
 - A similar percentage (52%) have confidence that their supervisors apply company policies and rules in the same way to all employees
- Our research has consistently demonstrated that supervisors who create high performing, energizing climates outperform those who create neutral or de-motivating climates, delivering margins double their size

Impact of a positive work climate

More effective managers create more positive work climates

“Perhaps the most important thing in this whole area of rewards is having a good boss because they set the right kind of work climate in the organization”



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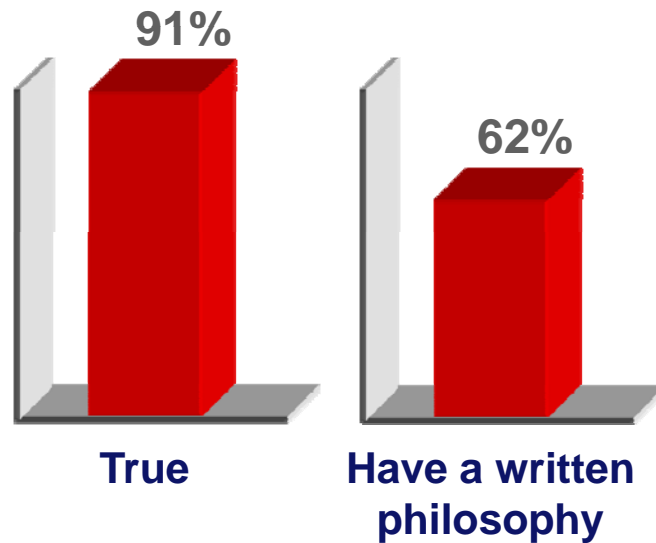
Pop quiz

Which % of companies say that most of their employees have a good understanding of their reward programs?

- A. Between 10%-20%**
- B. Between 30%-40%**
- C. Between 60%-70%**

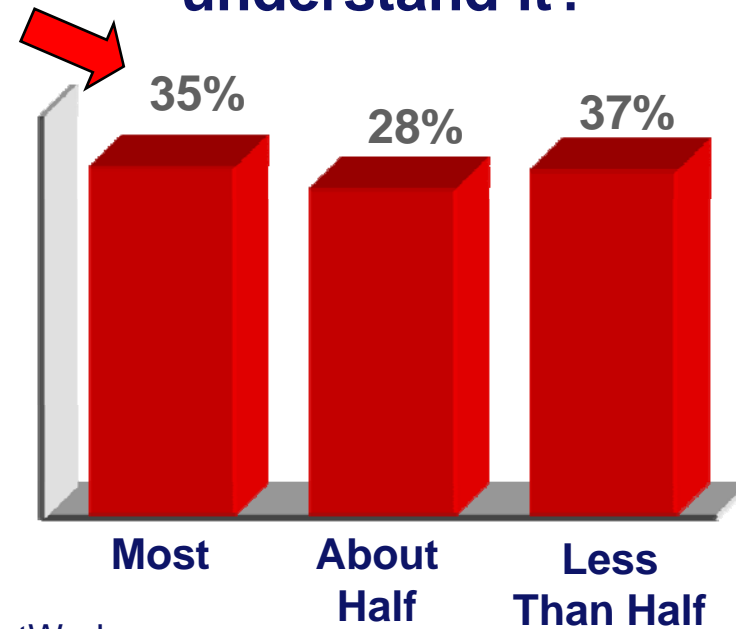
Reward communications

“My organization has a reward philosophy.”



All Companies

% of employees who understand it?



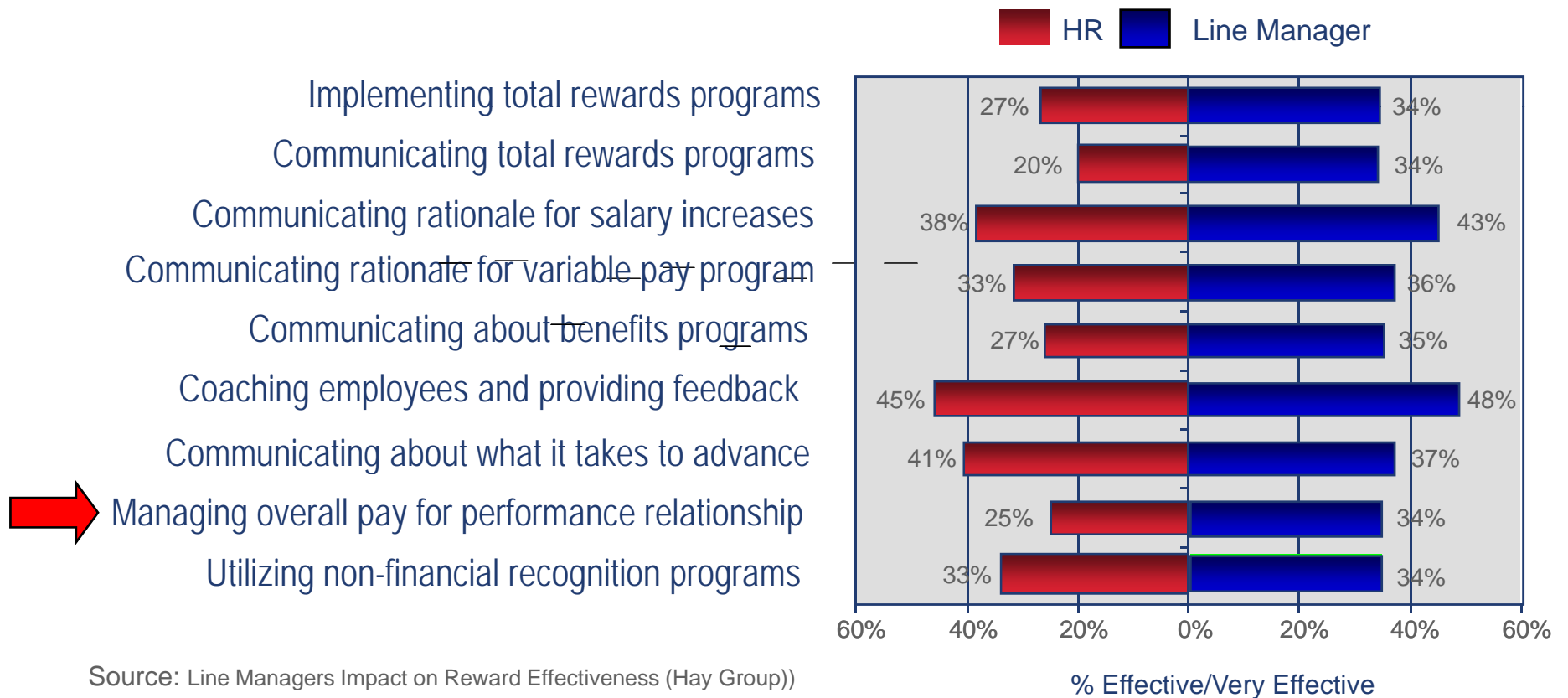
Source: Hay Group, Loyola University Chicago, WorldatWork

Which % of organizations say their line managers do a good job at managing the pay-to-performance relationship?

- A. Between 25%-35%**
- B. Between 45%-55%**
- C. Between 65%-75%**

The role of line managers

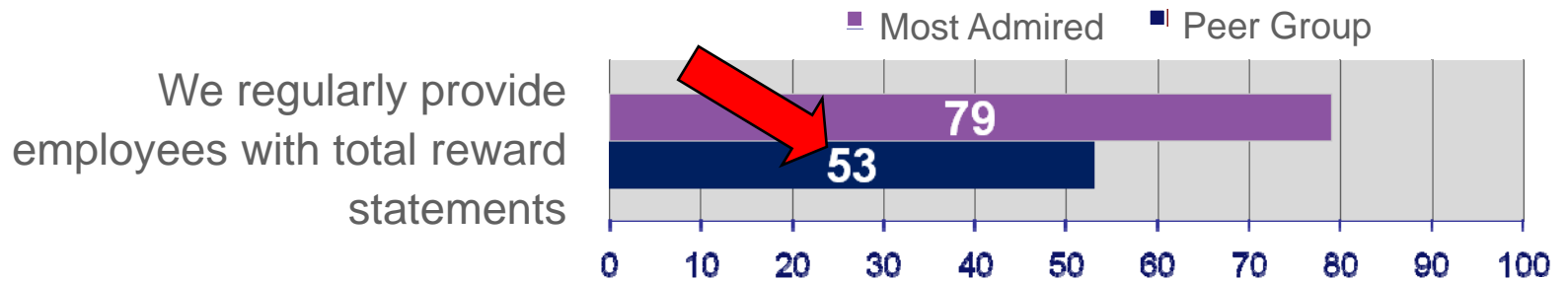
Most organizations get poor marks in utilizing line managers in effectively implementing their reward programs.



Which % of organizations provide their employees with total reward statements?

- A. Between 25%-35%**
- B. Between 45%-55%**
- C. Between 65%-75%**

The impact of total reward statements



% Agree

“Surprisingly it's not the value. It's the communication. We've spent hundreds of millions on providing benefits that employees didn't value, understand or even know existed. Regularly communicating the 'total value' ... significantly improved the effectiveness of our rewards programs.”

Bruce Lasko – Avaya (Hay Group, WorldatWork, Loyola Univ Chicago Research)

“Total remuneration statements have been instrumental in getting people focused on the value we provide. The investment in developing these statements is nominal compared to the value that they've brought. If we save one job as a result of this, it is worth it. It pays for itself.”

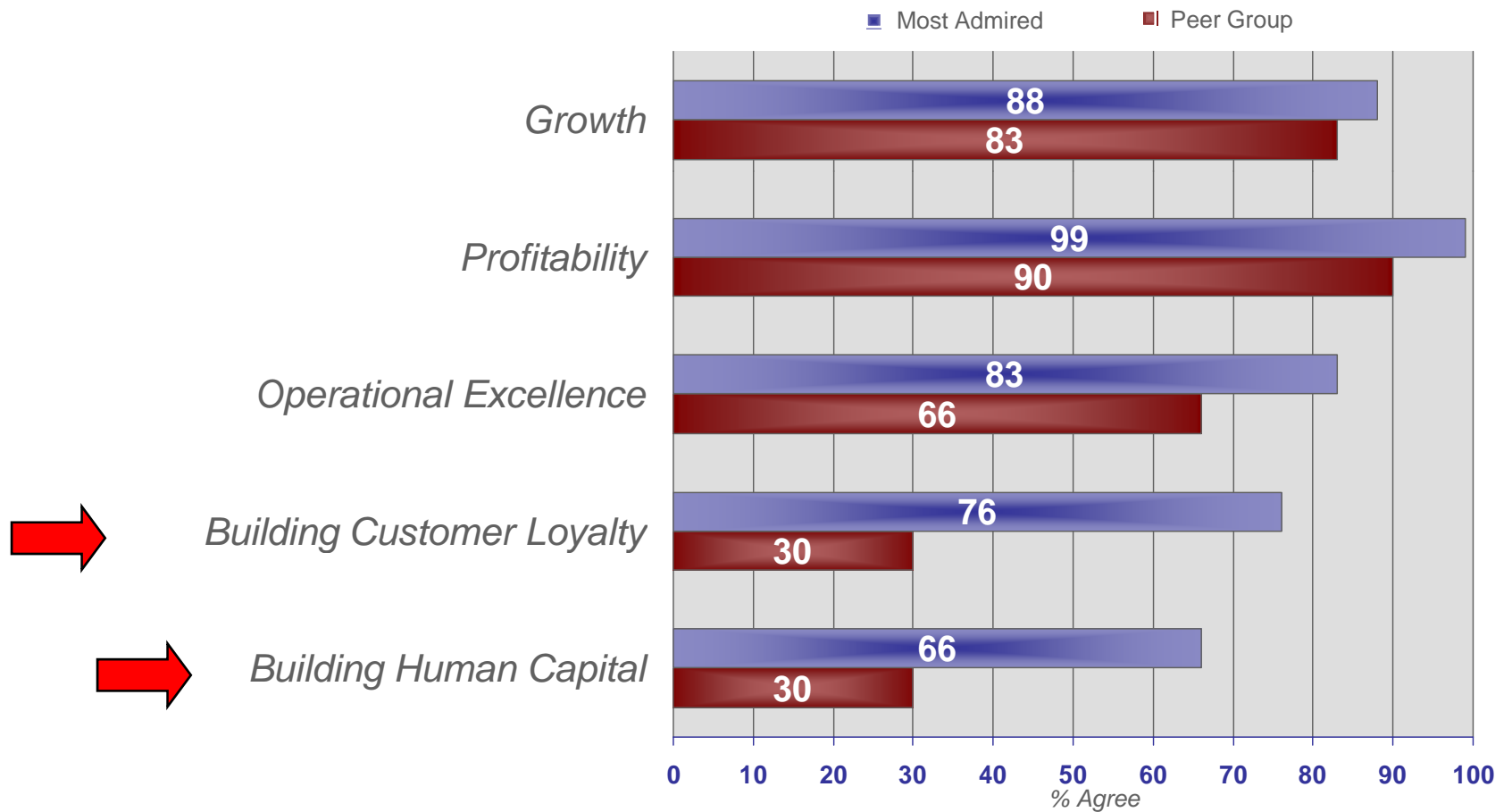
Elisabeth Baldock – SVP HR American Modern Insurance Group (Line Manager's Guide to Rewards)

The performance measures in Most Admired Companies encourage significantly more focus on:

- A. Financial performance (growth, profitability)**
- B. Operational excellence**
- C. Customers and building human capital**

Performance measures

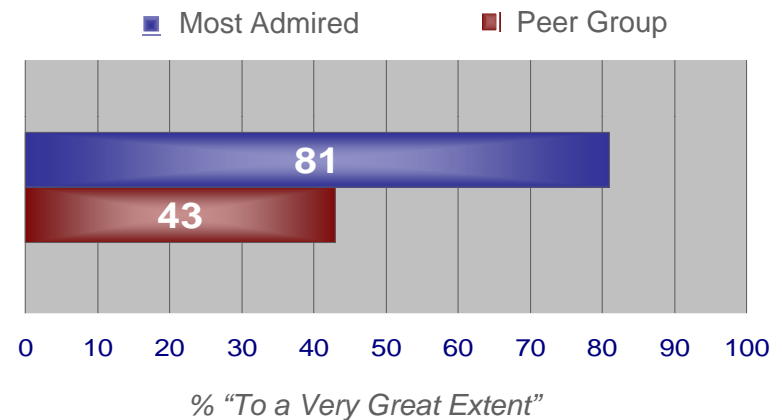
Performance measures encourage your focus on:



Performance measures

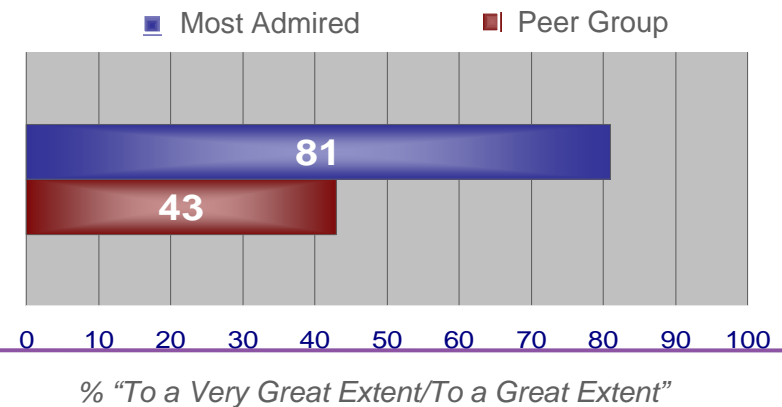
Balance of Short-term vs. Long-term Focus

Your performance measures encourage you to think not just short term (e.g., this year's performance) but into the future.



Balance of Individual, Team and Corporate Measures

Your performance measures encourage cooperation and collaboration among senior executives in your company.

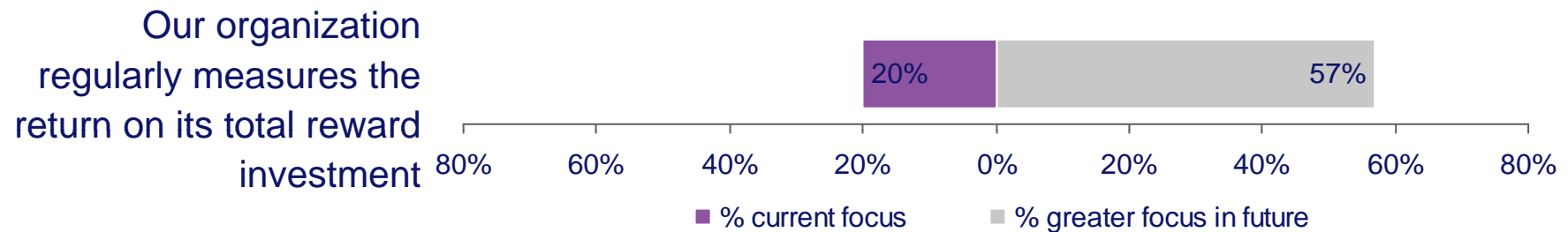


What % of companies say they regularly measure the ROI of their reward programs?

???

ROI of reward programs...

Is pay a cost or an investment?



Why do we care?

- If pay is a cost, the obvious goal is to minimize it
- If pay is an investment, the obvious goal is to optimize it

So, organizations, its managers, and its HR function, are likely to behave quite differently depending on their view

04

Recommendations

Decode
**Organizational
values** (including
reward strategies)

Decoding organization values

Many organizations have developed mission and value statements that provide the basis for judging the success of the organization and its programs

- These values are generally most understood by senior leadership and least understood by the majority of employees and first-level managers
- We have seen few human capital strategies or reward program strategies that explicitly address how fairness and equity is defined and managed.
- Senior leaders and HR would be well served to “decode” these values to show how they impact the purpose and design of the suite of human capital and reward programs

Defining fairness in reward programs

- What aspects of fairness/equity cause us the most/least concern?
- Should reward programs and policies be the same for all employees or vary by demographic group?
- Which internal demographic comparisons cause us the most/least concern in assessing equitable treatment of employees?
- What are the key values that we should be recognizing and differentiating in our non-financial reward programs?
- Should external comparator markets and pay levels be the same for all employees or vary by demographic group?
- How does the organization resolve discrepancies between external market rates and internal job values?
- What is the degree of openness and transparency in our reward program communications?

Create a total rewards foundation

Broaden your perspective on rewards based on the current business reality

- Now is a good time to re-evaluate your rewards strategy to ensure alignment with business priorities, considering business now and in the future
 - Understand what employees value compared to what the company values
 - Analyze the mix of base, incentive and benefits
 - Review the performance metrics, goal setting and alignment processes to ensure everyone is focused on 'must win' priorities
 - Review job grading and market pricing processes to ensure a solid reward infrastructure
 - Assess how rewards (tangible and intangible) are communicated and managed by line managers

The value of the intangibles

With financial rewards being constrained, organizations need other forms of reward to recognize employee performance

- Organizations who focus on total rewards (tangible and intangible rewards) outperform their peers
- Training and development opportunities, promotion and recognition programs have a real impact on employee engagement
- Intangible rewards generally are a better value than money-based schemes

Understanding the employee's perspective

Most organizations do an inadequate job in understanding employee perceptions and preferences around reward programs

- The best reward programs are the ones that balance the needs of the organization and the employee
 - Organizations should probe what is considered relevant versus tangential from the employee's perspective of fairness and equity , either via in-depth surveying, focus-groups, or more structured and systematic data collection involving line managers.
- Remember the cardinal rule in employee surveys:
 - If you are collecting data and asking for employees' opinions, you must be prepared to feed back some findings and develop a plan for how the organization will act on the data.

Communicate
clearly and
frequently

Communicating clearly and frequently

Communicate the value of what employees are receiving

- Make sure employees understand the value of all forms of reward
- Consider implementing total rewards statements
- Work with managers to help them develop the skills to recognize employees in non-financial ways

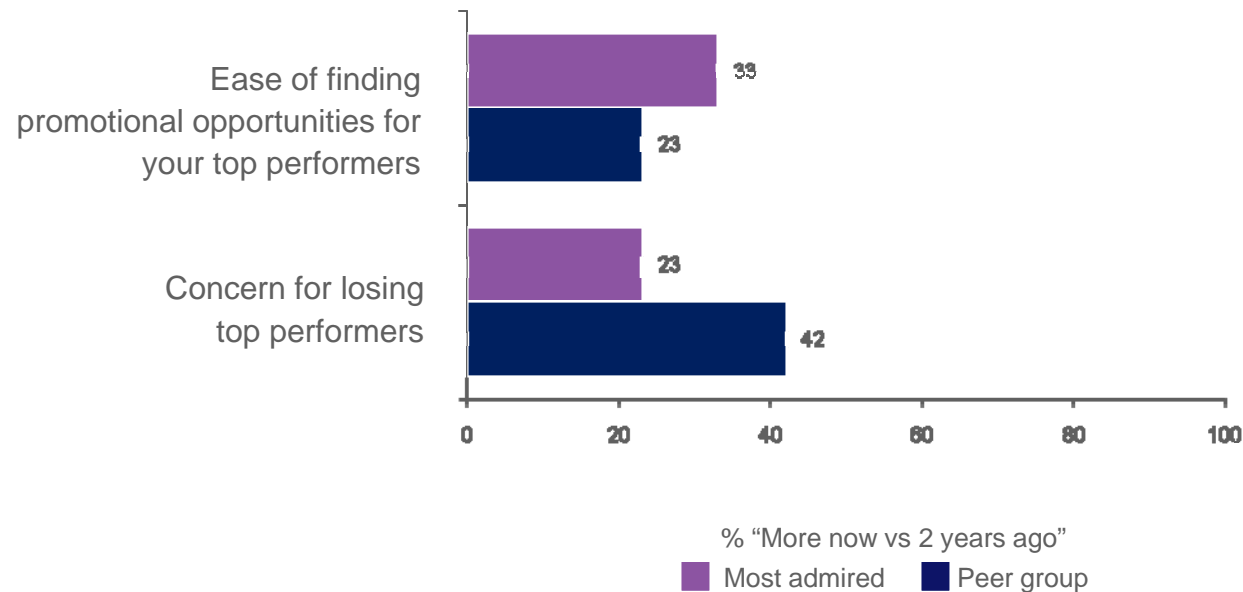
When employees are left in the dark, engagement and motivation erodes

- Senior leadership updates on the state of the business
- Communications from senior leadership builds trust and credibility
- HR can encourage manager/employee face-to-face discussions

Provide
career
development
opportunities

Retaining talent is crucial in an economic downturn

- Hay Group research has shown that **opportunities for advancement and growth** are among the top drivers of employee engagement and retention
- The Most Admired have had more success in **finding promotional opportunities for top performing employees** than have peers
- As a result, it is not surprising that the Most Admired also report **less concern over losing top performers**



Retaining your top talent

Ensure key employees are being adequately rewarded and recognized

- Identify key performers, high potentials and people with critical skills/knowledge
- Communicate to ensure that they know they are valued
- Emphasize career development, interesting/impactful work, and non-financial recognition
- Don't make the mistake of thinking that a tight market will retain top performers, they are always in demand and can always find other opportunities

Effectively differentiate performance ratings AND rewards to free up funds for those who are most deserving

Improve
climate through
effective
leadership

Developing management capability

Managers have a direct impact in the creation of an energizing work environment for employees. Practical programs that increase self-awareness and close management capability gaps can lead to an improved climate and better organizational performance. The organization and managers would benefit from:

- Increased self-awareness - understanding the current climate gaps and how their behavior (leadership styles) impacts the climate experienced by their employees
- Practical skill building – learning ways to improve the climate:
 - Clarity – how to increase transparency in the organization
 - Standards – how to develop challenging goals and provide feedback to improve performance
 - Rewards – how to increase recognition and reward employees in direct proportion to the quality of their performance

Summary

In summary, employee perceptions of fairness are driven by many factors which can be linked to the level of engagement in the workforce

- Rebalancing of reward programs through a thorough analysis of the organization's needs and the employee's desires
- Development of career opportunity processes to focus on retaining key talent
- Communication and transparency around all programs and processes
- Management development to improve capabilities of managers for establishing and maintaining positive and engaging climates

If we can improve on these areas, we can improve employee engagement and thus effectiveness and overall organization performance

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Summary

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